How to Approach the Complexity of Negotiations

By Brian J. Dietmeyer

In the 1700's, Ben Franklin wrote a letter in response to a request he had received from a scientist friend of his. His friend was asking if Mr. Franklin could advise him on which decision to make, he said he couldn't but he could advise him on the process for making the decision. Furthermore, and more important for this article, he stated that one of the problems with making decisions is that "all reasons pro and con are not present in the mind at the same time." This is the same problem with business to business negotiation. We basically have multiple people on both sides of a deal, looking at many many variables and attempting to decide to accept or reject the deal. Another way to think about business negotiation is that of a very complex project with multiple people and multiple moving parts, and we're trying to manage this project without a project plan. In either case, managing the project or making a decision, not having a plan will yield sub optimal results.

INTRODUCTION

For far too long, negotiation has been thought of as a "soft skill" that is banished to elective courses in the "communications" category. Most trainers, consultants and teachers also think of it this way and provide training and solutions based on this incorrect assumption. Business negotiation is an entirely different skill than personal or consumer negotiation. Business negotiation is highly complex and lends itself more to math and the diagnostic process than it does to communications skills, questioning techniques and body language analysis. Speaking of sub-optimal results, it's no wonder that 85% of the Fortune 500 companies say they do not feel they are "highly effective" at negotiation and after training, the percentage of effectiveness only improves by 1.9%.

Let's take a look at some typical people involved in Business-to-business negotiation, the seller's side:

- VP sales
- Sales Rep
- Pricing
- Legal/contracts management
- Product managers
- Operations/Service

Some typical people involved in the Business-to-business negotiations, the buyer side:

- Head of technology
- Purchasing
- Legal
- Finance
- Lines of business owners

Just having all these people involved alone makes business negotiation very complex. Each individual on both sides of the table have two questions to answer before they can determine if the deal is done or not:

1. Is the solution on the table better than my alternative?
2. What does a great deal look like for me, if I accept?

Let's look at question one: we did this analysis for an online training firm and their customers were saying that they were "the same" as their nearest competitor. This was killing them in negotiation process as it was in the buyer's best interest to oversimplify this complex negotiation variable as "the same thing". Why is this? Well, if the competitors are viewed as the same then it becomes a commodity. If it's a commodity then the only variable that can be negotiated is price.

We looked deep into this issue and thought what would the multiple people on the buyer side of this negotiation need to examine to determine if in fact it they were the same. We started with broad headings like technology, content, overall corporate health etc. Then, we looked under each of the six headings we identified and listed the items in each heading that actually could be compared when putting two firms side by side.

For example under technology we listed:

1. Ease of integration into existing systems
2. Speed of integration/uptime
3. Percentage of down time or crashes
4. Ability to generate use reports

Under content we looked at depth of content on specific subjects and breadth of content across subjects, language capability etc. We determined that a buying organization would need to analyze 43 different data points across its many stakeholders to determine if they were in fact negotiating for the "same thing" as the competitor. It is this analysis that determines what "it" is that is actually being negotiated.

The second level of analysis has to do with how much to pay for "it" and how much risk to assume to acquire "it". Most often business-to-business negotiations are reduced to price. More often than not, in addition to price there is length of contract, volume commitments, raw materials clauses, payment terms, service, support, warranties etc.

A typical business-to-business negotiation has 10 people on both sides of the deal and probably up to 50-60 variables that need to be considered in order to make good business decisions. More often than not, this is being accomplished on both sides of the deal with very little cross functional communication and planning and almost always without a project plan. Therefore, it is little wonder why most companies are not satisfied with the effectiveness of their negotiating teams.

There is good news however. Business-to-business negotiations are complex not because of the amount of categories to consider but rather their depth within those categories. If we can answer the two questions above, for multiple people on both sides of the deal; we can effectively "blueprint" the negotiation.

It is the negotiating teams that control the data that will influence the outcome of the negotiation. Let's take a look at this process based on a typical negotiation in the manufacturing environment.

We will work through the process on a "live deal" using analysis and effective customer questioning around the two aspects of the negotiation blueprint above.

THE SCENARIO

It's April 1st and you've just been told by a potential new global customer that after all your months of trying to sell some of your machines to them, it's finally down to a choice between you and your closest competitor. The customer wants to see your "best foot forward" proposal in six weeks (May 15), and they have hinted that your competitor is aggressively pursuing the deal with quite creative pricing and they have a pretty good "product fit"

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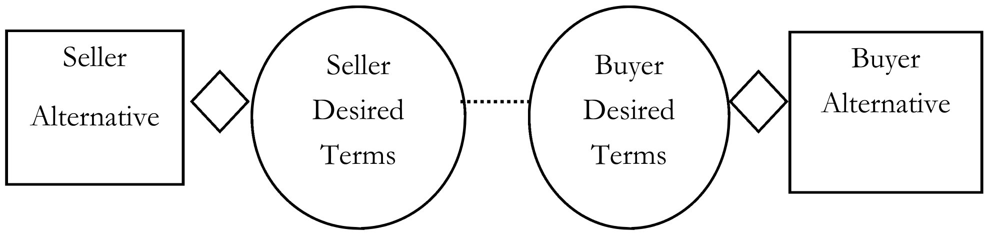
Figure 1

Negotiation Blueprint



The Consequence of No Agreement (CNA) – Yours

You complete an overview of your own CNA and determine that if you don't reach agreement with the customer in this negotiation you will most likely lose the business. In this case, losing the business means you will lose about $750K in global revenue in the first year. If, however, you take into consideration potential long-term revenues from this customer, total CNA costs could be as much as $2.5M. In addition, if you don't close this deal you will lose the costs associated with the four months you've spent selling to the customer—approximately $25K for staff time, product demonstrations, etc.

You will also have some soft costs in the form of "political heat" from your Vice President of Global Sales and the head of your product management group, both of whom have a personal interest in this sale as it impacts their bonuses, as well as yours. You are also aware that losing this sale will, in effect, strengthen a key competitor's financial stability and competitiveness by allowing these revenues to go to them.

Good news for your CNA is that the market is growing—albeit slowly compared to past years. The chances of replacing this customer are fairly good and your list of other prospects for sales looks good at the moment. Also, while you have no other customers that are this large and ready to close, there are at least two or three smaller ones that you feel positive about. All of them together could replace this sale, but it's always more profitable to close and service one customer than several.

Consequence of No Agreement (CNA) – Your Customer's

As always, attempting to analyze the customer's CNA is trickier. In this case, you know their CNA is to go to your major competitor, and, as they've hinted, pay less. What's tricky, though, is the total analysis – that is, determining the positive and negative effects – of their choosing the competitor over you. The first thing you do is pull together a team from your side. You invite one of the company's account managers who worked for your competitor on this deal, a guy from engineering who just came to you from the customer's organization, and some additional product experts. You give them an overview of the situation and ask them to help you brainstorm all the elements the customer may be considering when comparing your offer to their CNA.

After brainstorming you ask the group whether, from the customer's perspective, each element is positive or negative compared to choosing you. The team breaks down the analysis in terms of design of the solution, delivery and installation, ongoing maintenance, output and long-term upkeep. They also suggest doing an evaluation of comparative terms and conditions. The results of their analysis suggest the questions that must be addressed are:

Design Elements

Whether or not there is an off-the-shelf solution that fits the customer's needs;

How much "ground up" design is needed to build and test custom aspects; and

How much time / commitment is needed from the customer for design.

Delivery and Installation Elements

How long will it take?

How long will the customer's operation be down while the machine is being installed? And

How labor intensive will it be for the customer?

Maintenance Elements

How often does the machine break down? What are the service hours and fees? And

How difficult will it be to train the customer's team to run it?

Output Elements

How many units per hour will the machine put out?

What is the customer's machine's defect rate? And

Can the machine be run "24 / 7"?

Upkeep Elements

What do maintenance costs look like in years two, three and four?

How easily upgradeable is the machine? And

What is the machines expected service life?

Terms and Conditions Elements

Lease vs. buy;

Flexibility of contracts;

Payment terms; and

Short-term product price.

In regard to design, you've determined that your competitor does have a pretty good "off-the-shelf" machine, while yours would require some customization. Your customization, however, would be free, and would require very little customer interface.

In terms of installation, your engineering department has just found some independent studies showing that easily customizable machines – like yours – are also relatively easy to install, and therefore end up taking about as much total time to install as less flexible "off-the -shelf" machines.

As far as maintenance is concerned, the folks in your engineering department and, especially, the engineer that just came over from the customer, say you have a huge advantage in terms of your machine's reliability. Of course, customers aren't likely to tell you that, but it's one of your strengths.

In regard to output, you and your competitor are pretty close. Their output may be a bit higher than yours, but since your machines run a higher percentage of the time, it probably makes up for the difference. In terms of upkeep, because of how they've been engineered, your machines breakdown much less frequently and, as a result, last longer.

Finally, in regard to terms and conditions, you and your competitor both offer lease or buy options, your industry contracts are all pretty much the same and payment terms are usually 25% at signing, 25% on delivery and 50% when running. Your "price" is a bit higher, but you've determined that because of the reliability and flexibility of your machines, they have less downtime, easier long-term upgrades and longer shelf life. As a result, not only does your return on investment get better after year one, but your product is less expensive to own in years two and three.

In answering the questions about each group of elements, you've determined that there is a value proposition gap between what you have to offer and the customer's CNA (your competitor) in all but one of them (Output). Based on that, you feel good about this negotiation, however the problem is that either your customer doesn't have all the data on its CNA that you do, or it's bluffing.

Wish List – Your Side

You've pulled together your product manager, pricing manager and someone from the legal department for this estimation and, after much wrangling; have prioritized your Wish List of trades you could offer as follows:

Figure 2.

Wish List Estimation

Your Side

Rank	Item	Weight	Range ("preferred" to "will accept")
1	Length of contract	30%	3-1 years
2	Price	25%	$300-250K per machine
3	Volume	15%	3-2 machines
4	Upgrades	15%	50% discount-free
5	Man hours you provide for installation	10%	100-150
6	Ongoing Service	5%	8 hours x 5 days- 24 hours x 7 days

Wish List – The Other Side

With the help of the account manager who used to work for your competitor and your pricing manager, you've estimated the types of trades this customer has looked for in the past and developed the following educated guesses for its Wish List:

You know exactly what the customer's CNA is, and you've done a pretty good job of analyzing its positive and negative elements. Now, in order to learn how your customer sees its CNA, and to educate the customer on it, you prepare the following questions:

Have you determined how much customization the two machines will need for installation?

How do you see the impact on your facility during installation?

Figure 3.

Wish List Estimation

The Other Side

Rank	Item	Weight	Range ("preferred" to "will accept")
1	Price	40%	$200-350K per machine
2	Ongoing Service	25%	24 hours x 7 days-8 hours x 5 days
3	Upgrades	15%	Free-75% discount
4	Length of contract	10%	1 year-??
5	Volume	5%	2 machines-??
6	Man hours you provide for installation	5%	200-100

Do you have a certain amount of time budgeted for installation?

What are your expectations in terms of machine downtime?

When the machine breaks down, how quickly do you expect service?

How much staff retraining do you expect you'll need?

Do you have a figure in mind for year one maintenance costs?

Do you have figures in mind for costs in years two through four?

How would you like to handle future upgrades?

Do you complete total cost of ownership analyses or just compare acquisition price?

Having developed questions to validate your customer's CNA, you now develop questions to validate its Wish List items, as follows:

I understand you will be looking to negotiate price, service, upgrades, length of contract, volume, and man hours to install.

Is that right? Is there anything missing?

Is there anything that should be deleted?

What would you rank as your lead priority? That is, what should we focus on most? How about second, third, fourth, etc.?

Do you have any specific targets you'd like to hit for each item?

You now send out an e-mail to the head buyer, Vice President of Manufacturing, Vice President of Finance and all the other people you've been selling to, asking them if you can have 15 minutes of their time to better understand their needs for the upcoming negotiation. If they ask for them, you can send the questions in advance. When you get together with them, whether on the phone or in person, you ask the easy Wish List questions first to get the ball rolling, then go on to the CNA questions. You also bring someone else from your account team with you to record the customer's answers.

Having had meetings with your buying influences on several levels to validate your assumptions, you now feel that, even though the customers didn't answer all your questions, you were able to tighten up your estimations. You also feel that you succeeded in educating the customer on many aspects of its CNA as well as on many of the items to be agreed upon in the negotiation. Now, taking into account your interest in length of contract, price and volume, and the customer's concerns for price, service and upgrades, you devise three customized offers, equal to you (in that you would accept any one of them), but very different to your customer.

Now it's May 7th and you're ready to make a presentation—a full week before the customer's due date. You invite the customer's head buyer, Vice President of Manufacturing and Vice President of Finance, and bring along product and technical support people from your side.

You open the presentation by thanking the group for taking the time to answer your questions a few weeks earlier, and let them know that doing so went a long way toward helping you customize three different potential relationships. You also tell the group that you realize that if they don't choose you they will choose your nearest competitor, and admit that your competitor has a pretty good off-the-shelf solution as well as pretty good output. You also note that during your earlier conversations, the buyer and the Vice President of Finance put a lot of emphasis on price, and that the Vice President of Manufacturing talked a lot about "up-time," that is, the reliability of machines. This is the point at which you present the value proposition gap you found in your CNA analysis, specifically:

Your machines cast more in short-term price (year one);

Your machines are X percent more reliable than your competitor's, resulting in:

✶ Higher output (which manufacturing was concerned with); and

✶ Less maintenance cost (which the buyer and finance department wanted).

The combination of higher output and lower maintenance makes your machines cost less starting late in year one, then drop by X percent in years two and three.

You tell them that based on their needs and the value proposition of your competitor, you've put together three different relationships that you highlight on a flipchart or PowerPoint presentation. You briefly provide overview of some key elements of each, then offer everyone a handout containing the details of each and go through them. You now ask them to rank the three offers in terms of their preference. They quickly agree that the short-term option as the least preferable, but there's a lot of internal negotiation among them over which of the remaining options is most preferable. It's obvious that neither is quite right, so at this point you begin the trading to come up with one solution that fits their needs. They keep telling you that you're more expensive; you keep going back to total costs. They try to push you for concessions; you continue to trade using both wish lists. In the end, you settle on this deal:

Figure 4.

Item	Option 1: Short-Term Relationship and Lower Price	Option 2: Long-Term Strategic Relationship	Option 3: A Middle Ground
Length	One year	Three years	Two years
Price	$295K per machine	$250K per machine	$275K per machine
Volume	One machine	Three machines	Two machines
Service	8 hours x 5 days	24 hours x 7 days	24 hours x 5 days
Upgrades	50% discount	Free	75% discount
Installation Support	100 hours	300 hours	200 hours

FINAL AGREEMENT

Length of Contract: Three years

Price: $255K per machine

Volume: Three machines

Service: Five days x 24 hours

Future Upgrades: 25% discount

Installation Support: 300 hours

What do you think the outcome would have been if this was negotiated in the traditional method?

Brian J. Dietmeyer is President, CEO Think Inc! a global strategic negotiation consultancy. Brian has nearly 25 years of leadership experience in sales, marketing and strategic planning. He is also a sought-after speaker and columnist, and authored the book *Strategic Negotiation: A Breakthrough Four-Step Process For Effective Negotiation*. You can reach Brian at bjd@e-thinkinc.com.